CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, JULY 18, 2006

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, July 18, 2006, commencing at 7:01 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, Mounce, and Mayor Hitchcock

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and Interim City Clerk Perrin

B. TOPIC(S)

B-1 "Community Development Block Grant Economic Development Program"

Joseph Wood, Community Improvement Manager, presented the draft guidelines, loan application, and the roles and responsibilities for the revolving loan fund (RLF) program (filed), the purpose for which is to create employment for the targeted income group and benefit the general community of Lodi. No limitations were recommended on the types of businesses to be served—it is open to any form of business—and no specific geographic priorities were established—it is open citywide. The guidelines establish a priority in the application process for those businesses that would improve the tax base either through sales tax or transient occupancy tax. Under eligible use of loan funds, acceptable uses would be for land costs, infrastructure, building costs, and new equipment; however, capital costs would not. Currently, there is $150,000 allocated toward the RLF, and the size of the loan amount will be evaluated on a case-by-case basis. Alternatively, instead of a limit on the loan amount, a target of two loans per year could be established. The RLF, over time, will replenish itself and will increase the City's capacity.

Mr. King added that he believed very few people would use loan funds for building costs, as it would trigger federal prevailing wage requirements. Most will use the loan funds for equipment, fixtures, or furnishings.

In response to Council Member Hansen, Mr. King defined working capital as the cash needed to operate, for which there are security and collateral requirements.

In response to Council Member Hansen, Mr. Wood confirmed that the program includes a great deal of monitoring to ensure the money is spent appropriately.

Mr. King stated that the Council would be requested to endorse the program criteria and an outside third party would review the business pro forma and evaluate the loan. The business pro forma would include information pertaining to the costs for fixtures, furnishings, and professional services, the proposed return, and how much personal and borrowed money was invested.

Mr. Wood reported that the term of the loan would be three to seven years. The job creation ratio is one job for every $35,000 lent, which is the minimum established by federal guidelines and is intended to create jobs within the targeted income group. The collateral requirements are pre-fixed at one to one (or 100%) collateral for the project costs. Staff is still reviewing the process as to who is responsible for the various functions of program operation administration. The loan review process would have two phases: the initial review would be performed by City staff as to whether or not it met the established guidelines and the second review would be done by a loan review committee. Following the two reviews, the final approval would be by the City Manager. Regardless of the payment options (deferral or annual payments), on-going maintenance would be done throughout the year in order to avoid issues before they develop.

In response to Mayor Pro Tempore Johnson, Mr. Wood stated that the City would either establish a review committee or utilize an existing program to perform the monitoring.

Council Member Hansen questioned what would happen with the collateral if a business were to fail and what the success rate is in this program.

Paula Connors with the Economic Development Advisory Loan Committee for the State of California Community Development Block Grant (CDBG) program stated that the City would not own the collateral; however, if the applicant failed to make the payments, the collateral would come to the program and the City would liquidate it. Due to depreciation, the City would not receive 100% on the dollar. Loans should be given to businesses that have a strong, stable history and that have been in business for at least three to five years. The financial review would take into account income, performance, revenues, and ability to make payments and would be documented by financial statements and tax returns. Making the loan is the easy part; the difficult part is the monitoring and servicing, making sure the collateral is there, and ensuring the job requirement is still being met. She suggested contracting with an agency, such as a bank, to perform the loan monitoring services. Ms. Connors estimated a 10% failure rate.

Mr. King stated that the RLF could be used to achieve a particular goal for the community, such as offering a specific type of restaurant or a hotel that would stimulate the tax growth. Loan proceeds can also be used to pay for impact fees. Even if a business were to fail, the specific goal might still be achieved if a new owner continued the business.

In response to Mayor Pro Tempore Johnson, Mr. King stated that the Council would approve the program criteria (i.e. types of loans, terms, etc.). An outside third party would review the loans, and Council would receive regular reports on the status of the loans and the success and failure rate. The City Council would have the ability to change on a forward basis the loan criteria and the job creation ratio.

In response to Mayor Hitchcock, Mr. King stated that, in order to avoid the appearance of favoritism, the Council is removed from the loan review process and an outside review committee would protect the integrity of the process. In addition, the loan application requires certain information be provided that a business would not want its competitors to see, and this information would be subject to a public records request, which would discourage many people from applying.

City consultant, Carleen Bedwell, Managing Principal with Applied Development Economics, reported that the detailed loan information is provided to the program operator, which is then summarized and provided to the loan committee. The information remains confidential and is not a part of the public process. The results are then summarized in a credit memo and forwarded to the City Manager for final approval, after which he would report to Council the name of the business and the loan amount. The credit memo would be an analysis of the loan underwriting conclusions; however, it would not include the detailed information of the business tax returns, five-year projections, or business plan. Those documents are provided to the program operator. In the 20 cities she has worked with, all have the decisions made at the City Manager level.

In response to Mayor Hitchcock, City Attorney Schwabauer stated that there is no specific statutory reference that provides confidentiality for these particular records; however, they would not fall in the category that the concerns over privacy outweigh the public's interest, nor is there attorney-client privilege. The Brown Act states that the public has a right to view information presented to Council in document form, and he believed that the City would be unable to maintain confidentiality of those records.

Mr. King stated that the City could require two applications: one containing the required detailed loan information and the second containing generic information with the business name, address, and basic business plan, which would be available to Council and the public.

Council Member Hansen believed that many opportunities would be lost due to the public information and disclosure act as most do not want to disclose their business plans. He concurred that Council establish the allocation amount, the number of loans per year, and its community goals (i.e. type of business, location, etc.) and believed it was unnecessary for Council to receive the detailed loan documentation.

Mayor Hitchcock responded that Council has a responsibility for this CDBG money and she wanted to ensure it was handled appropriately and responsibly. She expressed concern that the City would not have adequate staff to handle the overseeing and monitoring of the loans and questioned what the cost would be to have an outside organization take on those duties.

Mr. King stated that there are three cost options: contracting with a private lending institution, contracting with the county or the county affiliate, or contracting with an individual. Staff is still reviewing these options and will have a recommendation when this matter comes back before Council.

Ms. Bedwell stated that the CDBG program allows activity delivery funds as an eligible use for program operation.

In response to Mayor Pro Tempore Johnson, Mr. Wood confirmed that there currently is no program income, from which to draw in order to start up this program; however, there are CDBG and HOME funds for low- and moderate-income housing assistance that could be applied toward the initial program administration.

Council Member Hansen expressed concern about allocating additional funds to this loan program as it would take money away from the brick and mortar type CDBG programs.

Mr. King stated that the federal government has recognized that the use of CDBG money to stimulate the local economy to create jobs for low- and moderate-income individuals is an appropriate use of CDBG money. He pointed out that the money goes back into this program for multiple uses, which is extremely beneficial should CDBG program funding be reduced or eliminated.

Mayor Pro Tempore Johnson questioned if the $150,000 allocation could be banked for a period of time in order to build a larger pool, to which Mr. Wood replied that the ability to bank CDBG funds is based upon the balance and only 1.5 times the annual allocation is allowed to be carried over.

Wendell Youngsma with the San Joaquin County RLF Program stated that the county's success rate is over 90% and that the keys to a successful program are carefully reviewing the applicants, structuring the deal, and collecting the loan payments. Ten to fifteen percent of the loans go into default (i.e. more than 90 days past due); however, the county will work with the applicant by providing time to restructure or recapitalize or offer interest only for six months to a year in order to get the loan paid back. He attributed this effort to the high success rate. The county guidelines do not require 100% collateral to make the loan go through the committee, and if there were not enough business assets for collateral, personal assets would be used in its place.

In response to Council Member Hansen, Mr. Youngsma stated that he believed the program was very successful in stimulating the economy and creating jobs. The county's guideline is one job for every $20,000 lent, and applicants are allowed one to two years to meet those goals.

PUBLIC COMMENTS:

- Steve Jarrett questioned why non-profit organizations were not listed under eligible applicants.

  Ms. Bedwell stated that the CDBG program normally considers the loan program for private sector jobs because it is on the economic development side for profit-making businesses. CDBG money generally benefits non-profit organizations on the general side of the program as a grant or for community facility improvements.

  Mr. Jarrett stated that Goodwill recently moved back into Lodi, which is an employment and training facility, and he believed it should be eligible for the loan program if it wanted to expand and bring more employees into Lodi.

  Mayor Hitchcock responded that non-profit organizations, including Goodwill, would be eligible for CDBG funds in the form of a grant and they would not be required to pay back that money.

Council Member Mounce questioned if the job monitoring would track whether the employees are in the target area, to which Mr. Wood responded that this is a citywide program, so the jobs would not have to be created within the target area. Ms. Mounce expressed concern that employees from Stockton would not benefit our target area.

Mr. King stated that there could be a first source hiring agreement that would look first to hiring someone from Lodi and would then expand outside the area should no one be interested.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:17 a.m.

ATTEST:

Jennifer M. Perrin
Interim City Clerk

AGENDA ITEM B-01

CITY OF LODI
COUNCIL COMMUNICATION

TM

AGENDA TITLE: CDBG-Funded Economic Development Program

MEETING DATE: July 18, 2006

PREPARED BY: Community Improvement Manager

RECOMMENDED ACTION: Receive an update on the proposed CDBG-funded Economic Development Jobs Program.

BACKGROUND INFORMATION: In their action on March 1, 2006, the City Council allocated $150,000 to fund the start up of an Economic Development Jobs Program.

Prior to that, at the Shirtsleeve Meeting on February 28, 2006, a presentation was made by Community Development Department staff and Carleen Bedwell, Managing Principal with Applied Development Economics, to introduce Council to the concept of the use of CDBG funds for economic development, specifically for the creation of jobs within the community.

Staff has worked to identify the necessary requirements and guidelines for the proposed program to meet HUD regulations and establish the groundwork for such a program.

The purpose of this presentation is to preview the draft program guidelines, business loan application and to review the various stages of the loan process and the persons or entity responsible for each. The final draft of these guidelines and program materials will be brought back to Council at a later date for review and approval.

FUNDING: 2006/07 CDBG Allocation $150,000

Respectfully Submitted:

Joseph Wood
Community Improvement Manager

Concurred:

Randy Hatch
Community Development Director

Attachments

APPROVED:

Blair King, City Manager

CITY OF LODI
REVOLVING BUSINESS LOAN FUND

PROGRAM GUIDELINES

INTRODUCTION

The City of Lodi Revolving loan Fund (RLF) is designed to meet the capital needs of businesses located in or moving to the City of Lodi. The RLF is capitalized with funds from the Community Development Block Grant Program (CDBG) of the federal Department of Housing & Urban Development (HUD) through the County of San Joaquin, and from the repayment of principal and interest from existing loans. Federal requirements are incorporated into the use of these funds.

- The intent of the RLF is to provide “appropriate” assistance to businesses, which in turn create full time jobs while increasing the overall economic base of the community.
- The RLF is designed to provide no more than one-quarter of a project’s total financing requirements.
- The RLF will only provide the funds necessary to bridge the “financial gap” that allows the project to move forward.
- The RLF is targeted to businesses that have the greatest potential for long-term job creation, primarily benefiting persons in the Targeted Income Group[1](TIG) – which is a national objective of the HUD CDBG program. In addition, priority will be given to projects with other local public benefits, such as contribution to the City’s tax base, and local investment.

LENDING CRITERIA

There is no minimum or maximum RLF loan amount. Borrowers must, however create or retain at least one full time equivalent job for each $35,000, or fraction thereof, they receive in RLF assistance.

The following guidelines have been adopted to clarify the program basis for making loan commitment decisions.

Leveraging: The RLF Program’s overall goal is to leverage at least three private dollars from equity and/or debt for every RLF dollar loaned. On a case-by-case basis with projects involving large job creation, this leverage requirement may be relaxed. Owner equity can be cash and/or land. Land will only be counted for construction projects. Expenditures made by the loan

[1] A household whose annual income is less than 80% of the county median income as defined by the County of San Joaquin CDBG Program.

applicant prior to the RLF loan award are not counted unless made as part of the submittal, and made within 60 days of the application submittal to the RLF, and are related to and in anticipation of RLF funding. If the equity requirement is relaxed for a project, additional collateral will be required.

Loan Terms: Not to exceed seven (7) years depending on the asset being financed, the "financial gap," and the demonstrated need for the RLF funds. This is subject to participating lender criteria and the quality of collateral. A call provision prior to the loan maturity date may be incorporated.

Interest Rate: The interest rate is set based on the business needs and "financial gap" of each loan. If the financial gap is the availability of capital the interest rate shall be near market rates for the asset being financed. If the financial gap is the cost of capital (rate, term or collateral requirements), then the interest rate is set by evaluating the businesses financial condition to determine at what interest rate the proposed project and job creation become viable.

Loan Fee: [Need to determine what costs are to be paid by CDBG Activity Delivery, and what paid by applicant.] County RLF – 1-2 % at closing.

Prepayment Penalty: None

Deferral Payments: On a case-by-case basis, payments may be deferred if warranted by the financial needs of the business.

Job Creation/Retention: At least one full time equivalent job (1,750 hours annually) per $35,000 provided (or fraction thereof) shall be achieved for each business assisted. Two permanent part-time jobs (at least 875 hours annually) can be aggregated to count as one full time equivalent job in the same project. At least 51% of all jobs created/retained shall be held by Targeted Income Group (TIG) persons.

See Attachment "A" for Current Income Limits of Targeted Income Group

Collateral Requirements: All RLF loans shall be fully secured for 100% collateral coverage to maintain the RLF Program. No unsecured loans shall be made. Types of collateral may include one or more of the following:

Real Estate – liens on real property supported by appraisals establishing sufficient equity generally utilizing a 100% loan to value ratio.
Deeds of Trust.
Liens on RLF financed machinery, equipment, or other fixtures, generally a 95% loan to value ratio.
Assignment of Rents, as appropriate.
Personal and/or Corporate Guarantees, as appropriate.
Cosigners and other collateral such as insurance on principals.
Other collateral, as appropriate.

General Administrative Features: General features of the program include:

Confidentiality of client financial information, as allowed by law governing public information.
NEPA Environmental Review of business project.
Equal Opportunity/Affirmative Action Policy.
Attorney review of all contracts and legal forms.
Monitoring and reporting forms.
Collection and foreclosure policy.
Compliance with HUD program regulations.
Federal Labor Standards where applicable.

General Credit Requirements: The following general credit criteria will be applied by the RLF. These requirements must be satisfied in conjunction with the provisions of RLF assistance so that the assistance is not allowed to compensate for deficiencies in these criteria. An Applicant must:

- Demonstrate the ability to operate the same type of business successfully for 3 years, or document the contracted expertise necessary to offset deficiencies in the principal's background or training.
- If circumstances warrant, agree to attend SBDC business plan, financial and marketing courses.
- Have enough financial strength and borrowing ability or equity to operate with the RLF assistance, on a sound financial basis.
- Show that the proposed assistance is reasonably secured to assure repayment.
- Show that the past earning record and future prospects of the business indicate ability to repay the loan and other fixed debt, if any, from the operation of the business.

ELIGIBLE APPLICANTS

Eligible applicants include on-going private, for profit business concerns, corporations, partnerships, and sole proprietorships that are classified as industrial, commercial or retail businesses, and that are located in or expanding to the City of Lodi. The project to be financed with the RLF Program must be within the incorporated area of the City of Lodi.

ELIGIBLE COSTS

- Infrastructure and off-site improvements.
- Land costs, including engineering, legal, grading, testing, site mapping and related costs associated with the acquisition and preparation of land.
- Building construction costs, including real estate, engineering, architectural, legal and related costs associated with acquisition, construction and rehabilitation of buildings and tenant improvements. (See note below regarding federal Labor Standards.)
- Purchase of inventory, furniture, fixtures, machinery and equipment.
- Impact/Mitigation fees.

Special Note
The use of CDBG funds as part of a private construction project require that federal Labor Standards be complied with throughout the project. This applies to the total private project, not just the portion paid for by CDBG funds.

INELIGIBLE USES

- Projects are not eligible unless they meet a CDBG national objective, create or retain permanent full-time jobs, primarily for the Targeted Income Group, and leverage private or equity funds.
- Costs incurred prior to CDBG grant execution, or prior to submittal of the loan application, and prior to environmental review completion are ineligible, except for private expenditures specifically identified in the application.
- Projects, which are not located in the City of Lodi.
- Projects that propose the refinancing of existing debt are not eligible.
- Projects are not eligible if they create a conflict of interest pursuant to California Government Code Section 87100 et seq. for any current City elected official, appointed official, or employee.

LOAN APPLICATION

Initial Phase: Based upon information provided by the potential applicant, a committee of City staff will review the project for loan appropriateness and eligibility. The Committee will be composed of the City Manager, Deputy City Manager, and Community Development Director. No fee will be charged for this phase.

Information to be provided by the potential applicant includes:
- Description of the business and project, (including any demolition*)
- Amount of loan funds requested,
- Number of jobs to be created and potential for TIG benefit
- Other public benefits
- Intended use of the funds
- Project timing and job creation timing
- Leverage and status of funding
- Environmental considerations
- Principals of the business and business plan.

* Trigger Relocation Benefits

Second Phase: In the event the potential project has been determined to be an eligible project and appropriate for CDBG loan consideration, the applicant will complete a Lodi Revolving Loan Fund Application.

City staff, or its designated representative, will be the primary contact as the loan applicant compiles all necessary loan application documents. Loan Underwriting will be conducted by the

City’s representstive, XXXXXXXXXXXXXXXXXXXXXXXX, using HUD Underwriting Guidelines. Guidelines attached, Attachment B..

As a result of the loan underwriting process, a Credit Memo will be prepared with an analysis of the loan and the recommended loan structure. The Credit Memo will be sent forward to the Loan Advisory Committee (LAC).

LOAN REVIEW

The Loan Advisory Committee is responsible for reviewing funding proposals and making recommendations to the City. The City Manager will make the final decision on approval or denial of all loan applications submitted, including terms and conditions of loan agreements. All projects moving forward from the Initial Screening Phase and completed the Loan Applications will be brought before the LAC.

The Loan Advisory Committee will not consider the same project for funding more than two times. Projects that are turned down twice must be substantively altered before being eligible for reconsideration. The City Manager will make the final decision on approval or denial of all applications submitted, including terms and conditions of loan agreements. On average, the RLF review process takes four to six weeks from submittal of a complete loan application through Committee review. Loan funds can be disbursed one to two weeks (?) after closing the RLF documents. Every effort will be made to facilitate the process to coincide with the other funding sources and the project’s requirements.

LOAN CLOSING

City staff will be responsible for the loan closing, through the XXXXX.

FEES XXXX

LINKING JOBS WITH TARGETED INCOME GROUP PERSONS

The City works closely with the San Joaquin County WorkNet to support the Workforce Investment Act (WIA) programs and services that provide assistance to the unemployed and low and moderate-income persons. With the assistance of the State Employment Development Department, the two agencies regularly promote training activities and the labor market to potential employers in the area.

The training, recruitment, and placement activities currently operating in the community constitute the primary vehicle for insuring that the unemployed, underemployed, and low and moderate-income persons are linked with the jobs created through the RLF Program. These programs provide training and can be custom tailored specifically to meet a company’s needs. Recipients of RLF assistance will be provided with a detailed description of the services and benefits of participation in the WorkNet program and will be referred to WorkNet. The City will use cooperative agreements with WorkNet to refer all borrowing companies to the program as prospective employers.

HOW TO GET STARTED

Please take time to read and understand the information outlined above. If you are interested in learning more about the program, please call for an appointment.

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City of Lodi
Phone: (209) xxxxxxxxx
xxxxxxxxxx, Lodi, CA xxxxxx

LOAN UNDERWRITING GUIDELINES

The loan underwriting policies of the City of Lodi RLF are designed to assist businesses that could not proceed without the RLF assistance and to ensure that the RLF assistance is "appropriate" as defined by HUD..

HUD UNDERWRITING GUIDELINES

The City of Lodi has adopted the HUD underwriting guidelines to determine whether a proposed RLF subsidy is ***appropriate*** to assist the business expansion or retention. In addition, the project will be reviewed to determine that a minimum level of ***public benefit*** will be obtained from the expenditure of the CDBG funds.

The objectives of the underwriting guidelines are to ensure that:

Project costs are reasonable.
All sources of project financing are committed.
RLF funds are not substituted for non-Federal financial support.
The project is financially feasible.
The return on the owner's equity investment will not be unreasonably high.
RLF funds are disbursed on a pro rata basis with other financing provided to the project.
Sufficient public benefit will be received from the expenditure of RLF funds.

Project Costs: All project costs will be reviewed for reasonableness, and to avoid providing either too much or too little RLF assistance. The amount of time and resources expended evaluating the reasonableness of a cost element shall be commensurate with its costs. In some instances, it will be necessary to obtain third-party fair-market price quotations or a cost estimate. Particular attention will be focused on documenting the cost elements in a non-arm's length transaction.

Commitment of All Sources of Project Financing: Prior to the commitment of RLF funds to the project, a review shall be conducted to determine if sufficient sources of funds have been identified and committed to the project, the Borrower and participating lenders have the financial capacity to provide the funds, and to ascertain if the project is viable and will move ahead in a timely manner. In certain circumstances, the RLF may commit its funds in advance of final commitments from other funding sources. However, to conduct the underwriting analysis, the approximate terms and conditions of the other funding sources should be known. Final commitments from the other funding sources will be required, with substantially similar terms and conditions as used in the underlying analysis, prior to any loan closing or disbursement of funds.

Avoid Substitution of RLF Funds for Non-RLF Financial Support: The project will be reviewed to ensure that, to the extent practicable, RLF funds will not be used to substantially reduce the amount of non-RLF financial support for the project.

In order to receive RLF funds, a project must have a “financial gap.” This gap must be documented. There are three types of financial gaps, two are discussed below, and the third is discussed under the criterion “Return on Equity Investment.” One project may have two different gaps. The types of gaps are as follows:

Unavailability of Capital: The project can afford the cost of financing, but is unable to obtain the funds from either debt and/or equity sources. In regard to debt, the gap may be a result of a lender’s loan to value requirements or the inherent risk of the industry or project. For example, the lender will only loan 70% of the project’s cost. In this case, the business may not have the cash to bridge the gap, or if the business bridges the gap, its cash flow may be so restricted as to jeopardize the business. In order to document this gap, several steps need to be undertaken. The lender needs to be contacted to determine if there is any ability to increase the size of their loan. Other lending sources, both public and private, need to be explored. This includes looking at the business owner(s) personal financial statements for potential funds, including home equity loans. Finally, in addition to looking at the business and personal financial statements and tax returns, a proforma cash flow analysis needs to be prepared and analyzed, with and without RLF funds, to demonstrate the gap. The terms and conditions of a loan under this gap analysis should be comparable to the market.

Cost of Capital: The project cannot support the interest rate, loan term and/or collateral requirements of a lender. In analyzing this gap, discussions with the lender are important to determine any flexibility in terms. A single project may not be able to support the rate, terms and collateral requirements, or may just face a single hurdle. In addition, the gap may only exist in the early years of the project. To determine the gap, business and personal financial statements and tax returns shall be analyzed. Sources of equity shall be explored. Public and private funding sources that would bridge the gap shall be evaluated. Proforma cash flow analysis shall be developed with and without the RLF funds to demonstrate the gap. Depending on the gap, the terms or rate shall be adjusted to a rate that allows the project to proceed but are not too generous. Terms can be adjusted to allow for deferrals of principal and or interest, or to allow loans to be amortized over a longer period. Interest rates can be adjusted, including increases in the rate over time as cash flow allows.

Financial Feasibility of the Project: Each project will be examined to determine the financial viability of the project, and thus the reasonable assurance that the public benefit will be realized. The current and past financial statements for both the business and individuals must be analyzed, along with tax returns and projections. The assumptions behind the projections must be critically analyzed. Income and expense costs shall be evaluated and compared historically, where applicable, and compared to industry averages (using guides such as Robert Morris Annual Financial Statements). Project costs, including both hard and soft costs, must be determined to be reasonable. Accurate project costs are vital to determining project feasibility. As part of the financial analysis, the past, current, and projected financial data shall be analyzed to determine if the job estimates are reasonable and supportable. Labor costs shall be gauged at the break-even point. In addition, labor costs shall be checked against industry averages. Any variations shall be explained in the loan analysis.

The terms and conditions of the RLF loan must be "appropriate." In general, the interest rate shall be set at a rate where available cash flow is able to meet debt obligations, after other obligations are met, with enough cash flow remaining to operate successfully. The loan term typically is based on the asset being financed. The term should not exceed the economic life of the asset being financed. However a longer loan amortization schedule, with the loan due at the end of the economic life may be justifiable.

Each loan shall include a written explanation of the "appropriate" analysis that was undertaken, and the reason the terms and conditions of the loan were approved. Each loan decision shall also contain a certification statement by the City Manager that the loan has been reviewed according to all underwriting guidelines and regulations and that the loan is appropriate by state/federal definition.

Financial Analysis: Historical and projected financial statements will be subject to financial analysis to determine the gap, and structure the terms and conditions of the RLF loan, as discussed above, but also to determine that the project is feasible. In addition, using prudent underwriting guidelines, the analysis will demonstrate that the proposed loan is of sound value and that past earnings and future prospects indicate an ability to meet debt obligations out of profit.

Information required to be submitted by the applicant will depend on the project, ownership structure and whether it is an ongoing or start-up business. In general, the information required is outlined in the RLF checklist that will be provided.

The financial analysis will be designed to evaluate the business. The analysis will include a spread of the current and past financial statements to determine trends. The proforma statements will then be compared to these statements. Key financial ratios will be analyzed. The statements and key ratios will be compared to industry averages. Key ratios that will be analyzed include:

Current Ratio: current assets/current liabilities. The ratio is a rough indication of a firm's ability to service its current obligations. A ratio of 2:1 will be considered secure.

Quick Ratio: cash and equivalents plus accounts & notes receivable/current liabilities. This ratio is a refinement of the current ratio. A ratio of 1:1 will be used to demonstrate ample liquidity.

Cash Flow Coverage: net profit and depreciation and depletion-amortization expenses/current portion of long-term debt. This ratio will be used to measure the ability to service long term debt. This ratio is a measure of a firm's ability to meet interest payments. A cash flow coverage of 1.25 times debt service shall be used as a guideline.

Debt to Worth: total liabilities/tangible net worth. This ratio is the relationship between debt and a businesses net worth. A lower ratio is an indication of greater long-term financial safety and greater flexibility to borrow. In general, a debt to worth ratio of higher than 5:1 shall not be exceeded as an underwriting policy. There are exceptions when the industry average is high due to its capital intensive nature or when projections show the ratio lowering quickly.

Collateral Coverage: The value of collateral is compared to the amount of the loan. Typical underwriting guidelines suggest that 125% of loan balance be used. This ratio is highly dependent on the quality and security of the collateral. The Lodi RLF shall use 100% as a guideline, which shall only be lowered with specific and detailed analysis and explanation.

Break-even Analysis: The analysis of the project's ability to support the projected labor costs and additional debt service at its break-even point (BEP) will be analyzed to determine what proportion of the jobs can be supported at that BEP. This will serve as a worst case look at the business prospects for success, ability to service new debt, and meet job creation/retention obligations.

The financial and ratio analyses must be supported by the business plan. The business plan must provide a clear understanding of the project, competition, market strategy, sales estimates, management capacity and other factors.

Lastly, to ensure project feasibility, an evaluation will be conducted of the experience and capacity of the business principals to manage the business and achieve the projections.

Return on Equity Investment: The return on equity investment is the amount of cash that the investor/business owner is projected to receive in relation to their initial equity. For a sole proprietor, this equates to salary plus net income. The RLF should not provide more than a reasonable return on investment to the business owner. This will help ensure that the RLF will maximize the use of RLF funds and not unduly enrich the business owner(s)/investor(s). However care shall be taken to ensure that the rate of return will not be too low so that the business owner's motivation remains high to pursue the business with vigor.

If the project's financial returns are projected to be too low to motivate the business and/or investor to proceed with the project, the risks of the project may outweigh the returns. An inadequate rate of return adjusted for industry and locational risks, is a third method used to determine the gap appropriate to be funded with RLF funds. To analyze this gap, the projected return on investment must be compared to the return on investment on similar projects. If it is shown that a gap does exist then the RLF financing rate and terms must be set at a rate which provides a return equal to the "market rate." Real estate appraisers and lenders will be used as sources of information on "market rate" returns.

Disbursement of RLF Funds on a Pro Rata Basis: To the extent practicable, RLF funds should be disbursed on a pro rata basis with other funding sources to avoid placing RLF funds at a greater risk than other funding sources. When it is determined that it is not practicable to disburse RLF funds on a pro rata basis, other steps shall be taken to safeguard RLF funds in the event of a default.

Standards for Evaluating Public Benefit: Each project will be reviewed to determine if a minimum level of public benefit will be obtained from the expenditure of RLF funds. The minimum standards are:
Project site within the incorporated boundaries of the City of Lodi.

The project must lead to the creation or retention of at least one full-time equivalent job per $35,000 or fraction thereof of RLF funds borrowed.
The timing of job creation must be reasonable in relation to the receipt of RLF assistance. Projects must typically create the first new job within eight weeks of receipt of CDBG funds and all other new jobs within six months of construction completion.
Ability to expend the funds in a timely manner.

CITY OF LODI REVOLVING LOAN FUND (RLF)

LOAN APPLICATION

I. COMPANY INFORMATION

Name: ____

Address: ____

____

Telephone Number: ___________________________

Contact Person: ____

Project Address: ____

____

Project Assessor Parcel Number(s): ____

Current yearly property taxes: _______________________________

Business legal structure: ________ Proprietorship

________ Partnership

________ Corporation

Years in business: _______________________________

Current number of employees: Full time: ______________

Part time: ______________

Projected number of employees after completion of project:

Full time: ______________

Part time: ______________

Number of employees to be hired during year one: ___________

Number of employees to be hired during year two: ___________

Total number of new employees: ____________________

Total number of employees two years from completion of project: ________________

111. PRINCIPAL(S) INFORMATION

Name: ______________________________ ______________________________

Position: ______________________________ ______________________________

% of ownership: ______________________________ ______________________________

Years of experience: ______________________________ ______________________________

Name: ______________________________ ______________________________

Position: ______________________________ ______________________________

% of ownership: ______________________________ ______________________________

Years of experience: ______________________________ ______________________________

III. EXISTING FACILITY

Size: ________________ square feet

Owned or leased: _________________________

If owned:

Purchase price $___________________

Existing mortgage $_____________________

Recent appraised value $______________________

Annual mortgage payments $________________________

If rented:

Monthly rent $________________________

Annual rent $_________________________

Expiration date of lease ___________________________

IV. NEW/EXPANDED INFORMATION (IF APPLICABLE)

Size after expansion: ____________________ square feet

Will new facility replace existing facility? ___________________

If replaced, will rent be saved or will existing facility be sold? ________________________

For how much can existing facility be sold? $__________________________

Purchase price of new facility $__________________________

Appraised value $__________________________

Lease rate of new facility $_______________________

Lease term _____________________________

Will purchaser/lessee occupy entire space? ____________________________

If no, explain other uses: ____

____

% to be occupied by purchaser: __________________________

Rental income generated: $__________________________

V. PRINCIPAL BANK INFORMATION

Name of bank: ____

Contact person: ____

Telephone number: ____

Available line of credit: _______________________________________

VI. PROJECT COSTS

New construction	$_________________________
Rehabilitation	$_________________________
Off site improvements	$_________________________
Acquisition	$_________________________
Equipment	$_________________________
Working capital	$_________________________
Other	$_________________________
TOTAL	$_________________________

VII. PROJECT FUNDING

RLF	$_________________________
Bank	$_________________________
Company	$_________________________
Other	$_________________________
TOTAL	$_________________________

VIII. PROJECT DESCRIPTION (NARRATIVE)

IX. ADDITIONAL INFORMATION

X. INFORMATION REQUESTED FOR LOAN UNDERWRITING

________ Business income statements (current and last three years)

________ Business balance sheets (current and last three years)

________ Business income tax returns (last three years)

________ Personal income statements and balance sheets for business owners (current and last three years)

________ Individual tax returns for business owners (last three years)

________ Company history and resumes of principals

________ Copy of articles of incorporation, by-laws, corporation certificate of good standing, fictitious name statement, partnership agreement, or franchise agreement, as applicable.

_________ Pro forma cash flow statement

_________ Pro forma balance sheet

_________ Business plan

_________ Preliminary title report on property to be used as collateral

_________ Appraisal of property to be used as collateral

_________ Schedule of business debt and summary of lease payments on equipment and building

_________ Sources and uses of funds (e.g., equipment list, project cost estimates)

_________ Bank letter of commitment, as applicable

_________ Copy of purchase agreement or lease agreement, as applicable

I/we hereby acknowledge that the City of Lodi does not and cannot guarantee that I/we will receive financing from the RLF or from public or private lenders. In addition, RLF financing will not be provided without adequate documentation regarding funding of the balance of project costs. By my/our signature below, I/we grant permission to conduct necessary reviews of my/our financial and credit histories.

APPLICANT SIGNATURE: ____
PRINTED NAME: ____________________________ DATE: ___________________

APPLICANT SIGNATURE: ____
PRINTED NAME: ____________________________ DATE: ____________________

CITY OF LODI REVOLVING LOAN FUND (RLF)

NEPA REVIEW REQUEST FORM

Application Date: ________________________

Company Name: ____

Project Address: ____

____

Contact Person: ____

Telephone Number: ______________________________________

Concise description of proposed project:

Approximately date application to be presented to Loan Committee: ______________________

Date NEPA request forwarded to Planning: _____________________________

Planner assigned: _______________________________

Date completed by Planner: ___________________________

CITY OF LODI BUSINESS REVOLVING LOAN FUND
ROLES AND RESPONSIBLITIES

Draft 1 062606

	ROLE	PURPOSE	WHO	COST*
1	Market the Program	Acquaint potential borrowers with program; Use program as incentive to assist businesses to expand, locate, or remain in Lodi	City Manager, Deputy City Manager, Community Development Director	Absorb as City cost/Program Admin.
2	Phase One-Screening	Determine if business is an eligible and appropriate applicant; review project and borrower to determine if can meet requirements of CDBG funds. Determine other City benefits.	Committee of City Manager, Deputy City Manager, Community Development Director. Requires written information to be provided in advance by business. May want business at the meeting, or a portion of meeting. Committee makes decision if request proceed to Loan Application.	Absorb as City cost/Program Admin.
3A	Phase Two-Application Preparation	Application forms and required documents information completed and submitted.	Business prepares application. May need assistance of City representative to understand and comply with the requirements. City rep must review for completeness before application is official and ready for Underwriting. WorkNet could provide.	This is an allowable Activity Delivery cost. Can be time consuming. May require much back-and-forth with business.
3B	Phase Two--Application Underwriting	Full application and related information reviewed against HUD Underwriting Criteria. Requires Credit checks, title search, search of filings, and possibly other business/loan applicant research	City representative? Local banks? County RLF**??	This is an allowable Activity Delivery cost. May require back-and-forth with business.
3C	Phase Two--Credit Memo and Recommended Loan Structure	Written memo for use by Loan Advisory Board and later City Manager. Contains results of Underwriting and recommended loan structure	Prepared by whoever does Loan Underwriting.	This is an allowable Activity Delivery cost. Loan structuring may require back-and-forth with business.
3D	Phase Two-Loan Advisory Board	Reviews Credit Memo and recommends action to City Manager. May modify terms and conditions of the recommended loan.	Loan Board composed of: xxx, xxx, xxx. At LAB meeting: Entity that prepared Credit Memo; members of the LAB; business applicant (at portion of meeting).	This is an allowable Activity Delivery cost.
3E	Phase Two-Loan Approval	Approval of Loan by City. Letter of approval, with terms and conditions, sent to applicant.	Action by City Manager; preparation by entity performing loan underwriting and action with Loan Advisory Board.	This is an allowable Activity Delivery cost.
3F	NEPA Environmental Review of Business Project	NEPA Environmental certification must be completed for business project, prior to site disturbance and loan disbursement. (or loan approval?)	City staff/Consultant	Cost paid by applicant or City absorb or Activity Delivery?

*Sepate set-aside for activity delivery.
Different from Program Admin

4	Loan Closing	Loan Documents prepared for signature, reviewed, and signed. Necessary recording and filing of documents.	Review by City Attorney. Preparation by City representative.	County CDBG willing to do at no cost, using City approved loan docs. Or--City rep. This is an allowable Activity Delivery cost. Will require back-and-forth with business.
5	Loan Disbursement	Payment of loan funds, in the manner dictated by disbursement instructions.	Official and legal closeout of loan. Can be provided by WorkNet, or City rep doing loan underwriting, etc.	County CDBG willing to do at no cost, following City loan disbursement instructions. This is an allowable Activity Delivery cost. Will require back-and-forth with business. If service provided by County RLF, cost of LaserPro software license is $5,000.
6	Loan Servicing	Loan statement and payments, per schedule established in loan documents; tracking of loan related items, such as UCC-1 filings, changes in insurance, etc. Could involve loan collections, which can be difficult and involve legal actions.	City or City representative or County RLF or County CDBG.	County CDBG willing to do at no cost, following City instructions. This is an allowable Activity Delivery cost. Will require ongoing record keeping. Accounting to CDBG. Asked County RLF to estimate cost.
7	Portfolio Management	Loan Portfolio record keeping and reporting: Composite records of all loans, payments, status, new loans, interest earned for unused funds, etc.	City or City representative or County RLF; County CDBG may be willing to do.	This is an allowable Activity Delivery cost. Will require ongoing record keeping. Accounting to CDBG re use of funds.
8	Hiring	Coordination with WorkNet for eligible TIG workers to be referred to borrower business doing hiring.	WorkNet. Within their responsibility. Must do to CDBG standards.	Fee? If so, is an allowable Activity Delivery cost.
9	Labor Standards	If CDBG funds used for public or private construction, federal Labor Standards must be administered throughout construction project, beginning with bid process.	City staff or City representative, if public project. Borrower if private project.	Using CDBG funds for construction adds to the cost of the project. Preferable to use CDBG funds for other activities.
10	Job Creation and Reporting	Borrower provide info on new hires as made and quarterly (?) payroll form, to document job creation and ongoing job.	WorkNet documentation with initial hire; or self-certification. Business HR provide information. Review by City or City representative.	This is an allowable Activity Delivery cost. Will require ongoing record keeping. Accountability to CDBG.
11	TIG Documentation	Income Verification for the TIG status of new hires.	WorkNet if referral	with WorkNet? By business?
12	Loan Payoff	Documentation that concludes loan, once payoff comlplete.	City or City representative. County RLF do? County CDBG?	possibly allowable Activity Delivery cost.
Notes:				
* With the loan pool $150,000 to begin with, County CDBG Program Staff (Jonathan Moore) has suggested the City take $15,000 from its unused CDBG PI funds and use them for the Activity Delivery of the first year of the Lodi Business Loan Program.				
** County RLF may be willing to perform loan underwriting, loan closure, loan servicing and portfolio management. Currently operates a business RLF funded with federal EDA funds. While no CDBG experience, thinks can operate okay. Its loans are usually $100,000-$300,000. Has commercial loan system set up, with three staff.				
Additional Comments Regarding Costs:				

*Sepate set-aside for activity delivery.
Different from Program Admin

Need to confirm specifically if each task is an allowable charge to CDBG PI Activity Delivery? Any additional allowable cost to CDBG PI Administration?					
County RLF charges a loan fee (up to 2% of the loan amount) at the time of loan closing. Will have to see what is cost that can be paid by CDBG and thus not					
charged to applicant, and what is appropriate to charge applicant.					
Contacts					
Jonathan Moore, County CDBG Program. 209 468-3065					
Wendell Youngsma, County RLF. 209 468-3619		LaserPro Application - $5000 License Fee			
Prepared by Applied Development Economics. June, 2006.					

*Sepate set-aside for activity delivery.
Different from Program Admin

filed 7/18/06
J. Wood

Program Decisions for Lodi's Economic Development Jobs Program

1. Types of businesses to be served.
2. Targets or Priorities
3. Eligible uses of loan funds
4. Size of the loan
5. Term of the loan
6. Interest Rate
7. Loan review fee
8. Deferral
9. Job creation ratio
10. Collateral requirements
11. Structure and funding of the program
12. Program operation/administration
13. Loan Review Committee
14. Approval of loans
15. Loan servicing
16. Who conducts environmental review
17. Reporting requirements
18. Job monitoring
19. Marketing